

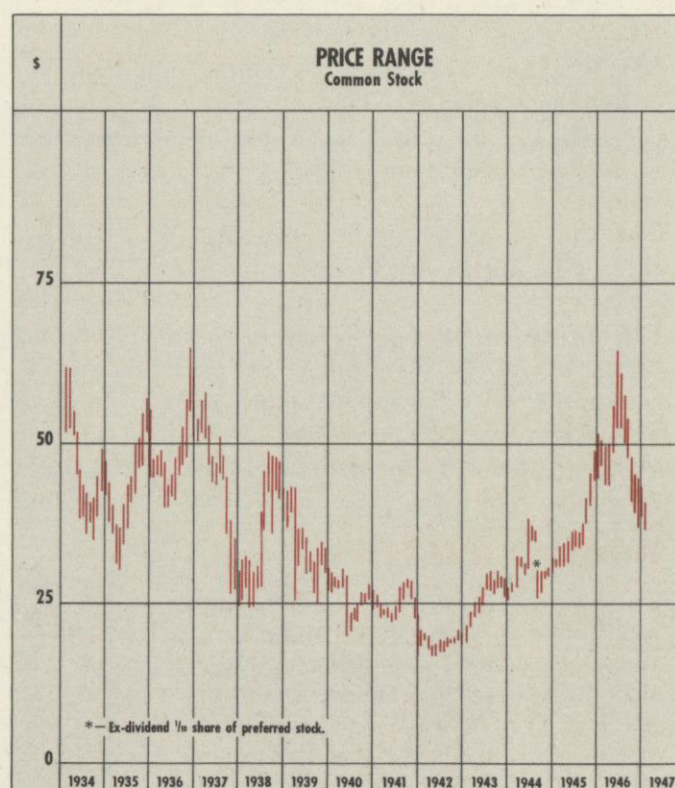
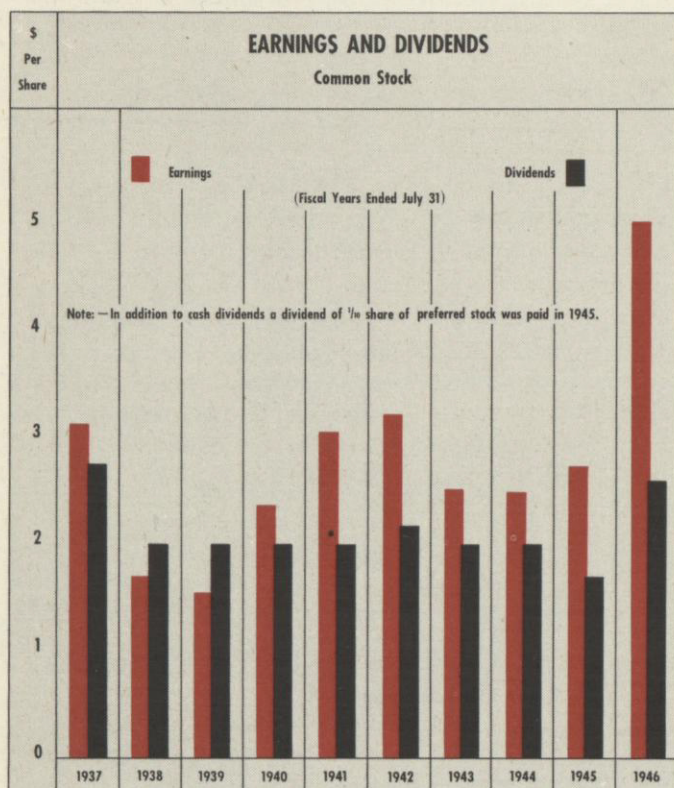
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R. H. MACY & CO., INC.



TIMING . . . For every investor, sound investment procedure requires a series of separate but related decisions in each of which "risks and rewards" must be weighed. Of these decisions, all investment experience proves that "when to buy" ranks equally in importance with "what to buy." Similarly, the alert investor will recognize that there is no security which can be "bought and forgotten" and that successful investment requires keen judgment in timing sales as well as purchases.

MERRILL LYNCH, PIERCE, FENNER & BEANE

Underwriters and Distributors of Investment Securities
Brokers in Securities and Commodities

70 PINE STREET, NEW YORK 5, N. Y.

R. H. MACY & CO., Inc.

FAVORABLE

(1) Operating units of R. H. Macy & Co., Inc., have long records of successful merchandising in their respective communities.

(2) After a period of limited development, the company has initiated an expansion program involving both improvement of existing units and possible entrance into new territory.

(3) The New York store, and other units in lesser degree, have a large stake in satisfying accumulated demands for furniture, household appliances, and other heavy consumer goods.

(4) Current assets are in substantial ratio both to current liabilities and to sales volumes.

(5) In the event of a decline in consumer income totals, Macy's low price policy should tend to moderate contraction in sales volumes. The company's loss of volume during the early 1930's was substantially less than that for department stores generally.

BASIC POSITION

The outgrowth of a dry goods business established in 1858, R. H. Macy & Co., Inc., early gained a position of leadership in general merchandise retailing in New York City. Over the past several decades, however, its activities have been extended to other sections of the country through acquisition of established retailing enterprises. Now constituting wholly-owned subsidiaries, The Lasalle & Koch store in Toledo, Ohio, became affiliated in 1923 and the Davison-Paxon store in Atlanta, Ga., was added in 1925. An already extensive coverage of the New York metropolitan area was supplemented by acquisition in 1929 of a controlling interest (since made complete) in the L. Bamberger store in Newark, N. J. More recently, a branch was opened by Macy's N. Y. in the Parkchester housing development and L. Bamberger established a home appliance unit in East Orange, N. J. Purchase in 1945 of the O'Connor, Moffatt store in San Francisco has provided West Coast representation, while smaller units have been acquired in Augusta

UNFAVORABLE

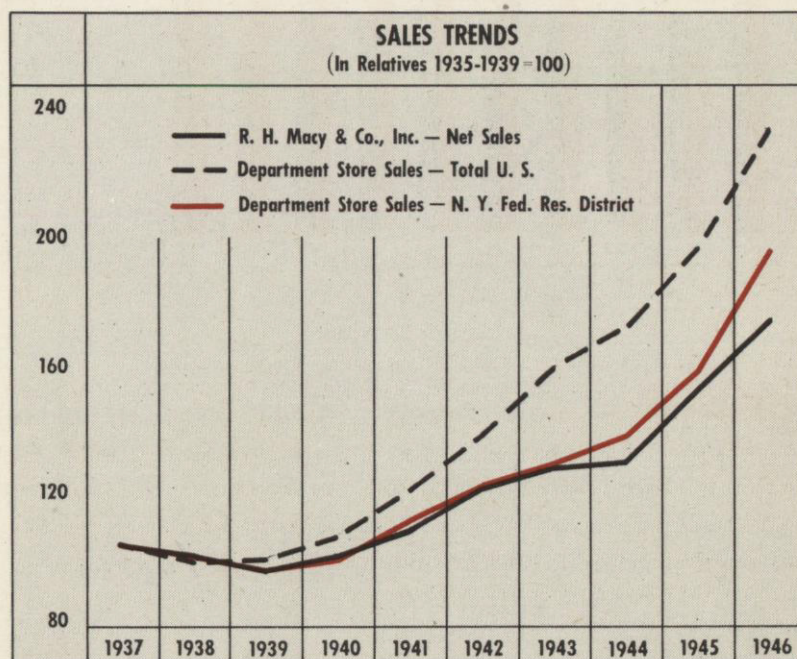
(1) During recent years, sales gains of R. H. Macy & Co., Inc., have lagged behind not only those in the national total for department stores but also those for the New York area, from which the major portion of its volume is obtained.

(2) Operating profit margins have run substantially lower than those for retailing organizations of comparable character.

(3) Inventory turnover has been below average in recent years.

(4) At an annual average of \$1,217,700 for the 10½ years ended July 29, 1944, expenditures for construction and equipment ran little more than 40% of depreciation charges. For the last two fiscal years, however, such outlays have totaled \$7,045,929 compared with aggregate depreciation of \$5,081,840.

(5) Improvement of working capital position has been limited by distribution as dividends of a relatively high proportion of available earnings.



and Macon, Ga.; Columbia, S. C., and Bowling Green, Ohio.

The New York and Newark establishments are noted among department stores for the broad range

of merchandise lines carried. The Davison-Paxon, Lasalle & Koch and O'Connor, Moffatt units are of similar type but provide less extensive variety. Men's, women's and children's apparel, household furniture and furnishings, groceries and other foodstuffs constitute some of the principal departments, while wines and liquors are sold in the New York and Newark stores and wines in the Toledo store. Price lines range from low to the higher brackets, but the main sales appeal is to the lower to middle income groups. Macy's N. Y. traditionally has emphasized savings to be obtained in retail prices through buying and selling for cash. In 1939, however, an installment purchase plan was adopted, while L. Bamberger & Co., Davison-Paxon Company and The Lasalle &

Koch Company do business on a charge account basis, as well as for cash and on deferred payments. A small amount of annual volume represents sales of departments leased to others.

The New York store is located in part on property owned in fee, but store buildings in the main are held under leases for long terms and fixed annual rentals. Early in 1946, L. Bamberger & Co. sold the owned portion of real estate occupied by its Newark store to an insurance company, taking back a long-term lease with provisions for renewals. In addition to its merchandise inventory and other working items, the Bamberger subsidiary holds 100% ownership of Bamberger Broadcasting Service, Incorporated, which operates stations WOR and WBAM.

CAPITALIZATION—AUGUST 3, 1946

Long Term Debt.....	\$3,400,000
4 $\frac{1}{4}$ % Preferred Stock (\$100 Par) Callable at 107 $\frac{1}{2}$	165,600 shares
Common Stock (No Par).....	1,719,354 shares
Preferred and Common Stocks listed on New York Stock Exchange—Symbol MZ.	

COMMENT: Among issues of department store organizations, the preferred and common stocks of R. H. Macy & Co., Inc., rank high in investment calibre. Senior capitalization is moderate in amount, while

current assets stand in substantial ratio to current liabilities. Along with a record of wide earnings fluctuations, however, prices for department store securities generally have shown corresponding instability.

EARNINGS

Expansion in dollar sales volumes during the war years was accompanied by a substantially greater rate of increase in pre-tax earnings. Gross profits on merchandise sales benefited from contraction in the proportion of transactions at marked down prices. The gain in net operating profit was intensified by the circumstance that such costs as depreciation charges, maintenance expenditures, real estate taxes and rent payments rose little in comparison with sales. Wartime restrictions held delivery expenses and outlays for advertising to abnormally low proportions. The combined result was an increase in profit from store operations from 3.5% on sales for the five years ended February 2, 1940, to 7.6% for the year ended August 3, 1946. Improvement in pre-tax earnings was enhanced also by larger credits from the broadcasting subsidiary. Including other non-trading items of \$849,875 and \$1,132,691 from broadcasting, total credits on other income account were \$1,982,566 for 1946 compared with an average

of \$509,566 annually for the five pre-war years. The book loss on sale of the Bamberger property reduced 1946 pre-tax earnings by \$3,025,168, but tax savings held the cut in net income to \$625,000.

Both in pre-war years and subsequently, profits of R. H. Macy have run lower in relation to sales than has been the case for other retailing organizations of comparable character, but without reflection in a superior degree of sales expansion during recent years. In 1946, total retail sales were divided, 59.4% to Macy's New York, 20.2% to L. Bamberger, and 20.4% to other units. Compared with their averages for the pre-war base period, dollar volume for the last fiscal year was 79% higher for Macy's N. Y., 70% larger for L. Bamberger, and in reflection of both more favorable local conditions and recent acquisitions, 236% greater for the remaining stores. Profit ratios of Davison-Paxon and Lasalle & Koch subsidiaries have run consistently higher than those for Macy's N. Y. and L. Bamberger.

Years Ended Approx. July 31	Net Retail Sales	Profit from Retailing	Retailing Profit % Sales	Other Income	Special Deductions	Total Pre-Tax Income	Federal Income Taxes	Net Income	Per Common Share			
									Earned	Divd.†	—Price Range*—	
											High	Low
Dollar Figures in Thousands												
1946	\$255,662	\$19,492	7.62%	\$1,983	\$3,025	\$17,772	\$ 8,437	\$9,335	\$5.02	\$2.60	65	37 ⁵ / ₈
1945	197,414	13,959	7.07	1,975	—	15,467	10,242	5,225	2.73	1.70†	52	31 ¹ / ₄
1944	169,898	11,137	6.56	1,575	123	12,079	7,960	4,119	2.49	2.00	38 ⁷ / ₈	26 ³ / ₄
1943	166,760	11,223	6.73	1,006	188	11,464	7,285	4,160a	2.51a	2.00	30 ³ / ₄	19 ³ / ₈
1942	158,100	9,980	6.31	831	1,545	8,798	3,384	5,334a	3.22a	2.17	21 ¹ / ₂	17 ¹ / ₂
1941	142,135	6,745	4.75	999	69	7,405	2,256	5,051a	3.05a	2.00	29 ³ / ₈	17 ¹ / ₄
1940	131,256	4,751	3.62	658	198	4,870	841	3,919	2.36	2.00	31	20 ¹ / ₂
1939	125,583	3,176	2.53	509	48	3,252	596	2,548	1.54	2.00	43 ¹ / ₂	25 ¹ / ₄
1938	129,881	3,569	2.75	521	—	3,626	719	2,793	1.69	2.00	49 ¹ / ₈	24 ⁷ / ₈
1937	135,920	5,708	4.20	583	—	5,798	999	4,690	3.12	2.75	58 ¹ / ₄	25

*—Calendar years.

†—Plus 1/10 share of preferred stock.

‡—Paid \$0.80 in current fiscal year through Feb. 1, 1947.

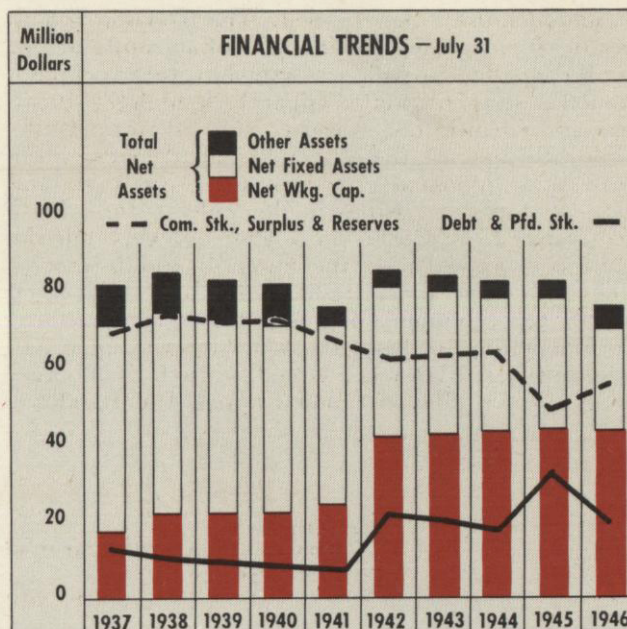
a—Before contingency reserve deduction \$613,132 for 1943, \$2,281,868 for 1942 and \$805,000 for 1941, or \$0.37, \$1.38 and \$0.49 per share, respectively.

FINANCES

Over the ten years ended August 3, 1946, dividend payments amounted to nearly 80% of earnings realized during the period. Higher sales levels have brought increased working capital requirements, which were met initially by borrowings. In January, 1942, serial notes outstanding were increased by \$5 million, while issuance of \$12 million in 2½% debentures the following May made a further contribution to the gain of \$17.5 million in net working capital for the 1942 fiscal year. On the other hand, the asset side of the balance sheet was shrunk by elimination in 1941 of all but \$1 of \$7 million in goodwill and by reduction early in 1942 of the valuation of subsidiary properties by more than \$8 million. On August 1, 1944, common shareholders received 165,600 shares of preferred stock as a stock dividend and \$16,560,000 was transferred from surplus account to capitalize the issue at \$100 per share. Sale of the Bamberger property for \$6,750,000 plus a related tax saving of \$2,400,000 provided the major portion of funds for reduction of long-term debt by \$13,113,000 during the year ended August 3, 1946. Subsequently, R. H. Macy has executed a two-year revolving credit agreement for \$20 million with a group of banks. Under this agreement, which provides for conversion of borrowings into a five-year term loan at the company's option, \$3.4 million were taken down on November 1, 1946, and applied to redemption of an equal amount of serial notes previously outstanding.

OUTLOOK

Although hampered by strikes on the part of delivery men and truck drivers in New York City, R. H. Macy has reported sales of \$62,348,000 for the 13 weeks ended November 2, 1946. Compared with the same month in 1945, dollar volume of department stores for November ran 26% higher in New York and 29% larger in Newark. Area gains of similar magnitude have been indicated for December by preliminary reports, while Macy's itself has disclosed that the holiday shopping period produced a new record in daily sales totals exceeding \$1 million. On the basis of trends for the period to date, sales for the six months ending February 1, 1947, should approximate \$155-160 million compared with \$129.5 million a year ago. For the six months ended February 2, 1946, income before real estate loss and taxes was \$10,639,061, while net income of \$3,239,893 was equivalent to \$1.68 per share of common stock. Despite higher sales volume for the current period, an increased proportion of sales at marked down prices and expanded operating expenses will have limited possible gains in operating profits. At current tax rates, however, pre-tax earnings again of no more than \$10.6 million would return net income equivalent to \$3.50 per common share. Correspond-



ingly, earnings for the first full year free of the excess profits tax would approximate \$6.85 per share.

Trends in wage totals and other consumer income components will constitute the main influence on Macy's sales volumes over the longer future. In contrast to the experience of the war years, department stores in the New York metropolitan area recently have been making superior sales gains. By reason of long-established and, in pre-war years, relatively important departments, increased supplies of furniture and household appliances should be of particular benefit to volume of the New York and Newark stores. As the return is made to normal merchandising practices, however, limitation of contraction in operating profit margins from the abnormally high figures of the war years, will constitute a key problem for retail merchants in 1947 and beyond.

Current expansion steps are directed mainly at strengthening the competitive position of established units, although further broadening of territorial coverage is not precluded, if attractive opportunities develop. Construction by Macy's N. Y. of substantial branch units in Jamaica (Long Island) and White Plains (Westchester County) will provide local representation in two important suburban areas, while L. Bamberger has leased a site for establishment of a branch store in Morristown, N. J. Doubling of the present floor space of the O'Connor, Moffatt store is underway and an addition to the Davison-Paxon building in Atlanta is being provided. Davison-Paxon has leased a site, moreover, for erection of a branch store in Columbus, Ga., while Lasalle & Koch has acquired sites for stores to be erected in Tiffin, Findlay and Sandusky, Ohio. Additions to property account amounted to \$1,895,598 for the 1945 fiscal year and to \$5,150,331 for that ended August 3, 1946.

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